NTCA
NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION
The Voice of Rural Telecommunications
www.ntca.org

May 4, 2011

***Ex Parte* Notice**

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

***Connect America Fund*, WC Docket No. 10-90; *A National Broadband Plan for Our Future*, GN Docket No. 09-51; *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135; *High-Cost Universal Service Support*, WC Docket No. 05-337; *Developing* a *Unified Intercarrier Compensation Regime*, CC Docket 01-92; *Rules and Regulations Implementing the Truth in Caller ID Act of 2009*, WC Docket No. 11-39**

Dear Ms. Dortch:

On Tuesday, May 3, 2011, Larry Thompson, Chief Executive Officer of Vantage Point Solutions, and the undersigned on behalf of the National Telecommunications Cooperative Association ("NTCA"), met with the following representatives of the Wireline Competition Bureau: Carol Mattey, Al Lewis, Amy Bender, Randy Clarke, Victoria Goldberg, Rebekah Goodheart, John Hunter, Katie King, and Doug Slotten.

Mr. Thompson and the undersigned provided the attached presentation to the Commission staff to help explain those measures that were recently proposed by NTCA and a number of other national, regional, and state associations to establish limits on the recovery of prospective capital loop plant investment costs through the universal service fund ("USF") or Connect America Fund ("CAF"). In particular, we acknowledged the Commission's concerns regarding the current operation of the High-Cost Loop Support ("HCLS"), and agreed that the mechanics of the HCLS program should be modified to ensure sustainability, predictability, and stability for USF/CAF recipients.

At the same time, we urged the Commission to avoid any changes that would undermine sustainability, predictability or stability, such as the recalibration of HCLS reimbursement percentages or other steps that would shift support for recovery of existing investment among various carriers. Instead, we explained that the forward-looking proposal presented by Mr. Thompson would provide a more reasonable opportunity for carriers to recover costs of plant upgrades and replacement of loop plant based upon localized decision-making by company managers. Specifically, this proposal would allow each manager going forward to best determine how and when to replace and renew plant and equipment based upon a "budget" that is tied to

the accumulated depreciation in that carrier's existing plant. This proposal would empower managers to make future investment decisions based upon "conditions in the field" and limits that are well-defined in advance, while also providing stability and sustainability for the USF/CAF as a whole – and helping to manage growth in such mechanisms – by tying the magnitude and pace of recovery for most future investments to a schedule for replacement of depreciated plant over time.

Mr. Romano also discussed NTCA's concerns with respect to potential reforms of Local Switching Support ("LSS") as suggested by the Commission in its recent Notice of Proposed Rulemaking in the above-referenced dockets. Consistent with the comments filed on April 18, 2011 by NTCA and other associations in these proceedings, we expressed concern that elimination of LSS could result, depending on separations effects, in either a substantial increase in retail local service rates or an increase in interstate switched access rates. We also explained that combining LSS with HCLS could be problematic because companies who receive LSS today may not qualify for HCLS recovery (either now and/or as a result of the various reforms proposed in the NPRM), meaning that the proposal to combine LSS with HCLS could be tantamount to eliminating LSS recovery for those companies. Mr. Romano urged the Commission to consider alternatives to combining LSS with HCLS or eliminating LSS altogether, and suggested that such reform should be coordinated with intercarrier compensation reform to ensure adequate cost recovery.

Finally, we discussed the need for identification of *both* the carrier *and* the type of traffic in resolving ongoing concerns with respect to phantom traffic. In particular, Mr. Romano explained that, while information such as Calling Party Number ("CPN") and Charge Number ("CN") are essential data in today's environment, other signaling and/or billing record information such as Carrier Identification Codes, Operating Company Numbers, and Jurisdictional Information Parameters are both important today and will remain so in the long-term. Indeed, given the Commission's long-standing objective to reach an "end game" in which intercarrier compensation rates are unified, we noted that the identity of the financially responsible carrier or service provider would be far more important in such an environment than using the CPN or CN to identify the jurisdictional nature of a call. NTCA urged the Commission to respond to claims of technical infeasibility with respect to the population of certain signaling or billing fields by creating an exemption narrowly tailored for such concerns – much as it did with respect to local number portability implementation – rather than allowing such a limited concern to deter the adoption of any rule at all.

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS with your office. If you have any questions, please do not hesitate to contact me at (703) 351-2016 or mromano@ntca.org.

Sincerely,

/s/ Michael R. Romano
Michael R. Romano
Senior Vice President – Policy

MRR:rhb

Enclosure

cc: Carol Mattey
Al Lewis
Amy Bender
Randy Clarke
Victoria Goldberg
Rebekah Goodheart
John Hunter
Katie King
Doug Slotten
Larry Thompson

Proposal for Allowed Loop Plant Capital Expenditures

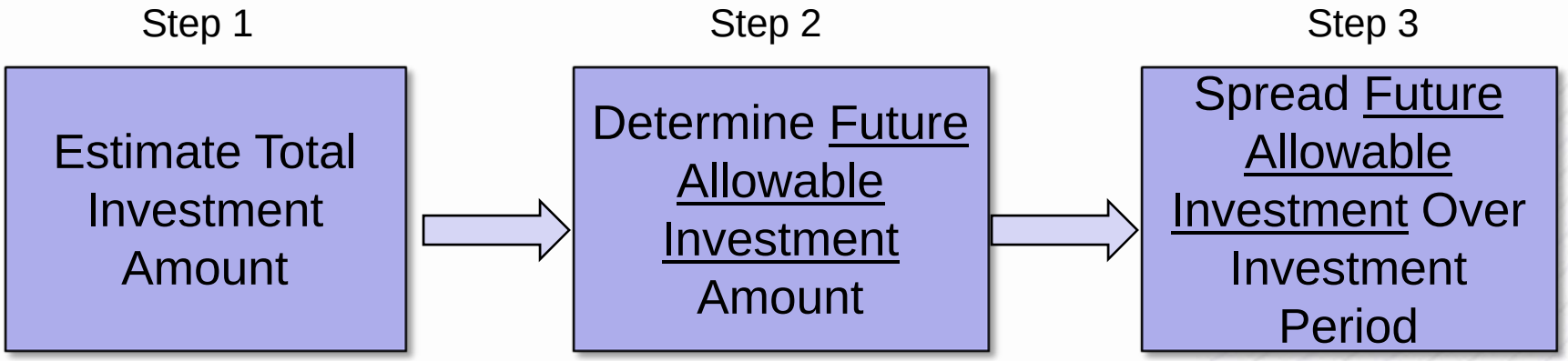
May 3, 2011

Larry Thompson, PE
Chief Executive Officer
Larry.Thompson@Vantagepnt.com

The Issues

- The FCC proposes to transition the Universal Service Fund (USF) into a Broadband-oriented Fund.
- The FCC seeks to make use of USF support "more efficient" and control growth in the size of the USF.
  - Use of USF by rural local exchange carriers (RLECs) is a success story.
  - But RLECs support reform of the USF to ensure a stable source of support for capital costs of responsible deployment and needed upgrades of broadband-capable networks over time.

Process of Determining Allowed Capital Expenditure



- Based on study area
- Local Loop investments only
- FCC “safety valve” waiver process needed where RLEC can show that the amount is inadequate/insufficient

- Allowable investment determined by ratio of local loop accumulated depreciation to total local loop investment
- Investment required for previously unserved locations (e.g., greenfields) is not subject to this limitation

- Determine reasonable period of investment
- Spread allowable investment over this period.

Step 1:
Estimate Total Investment

- Determine Booked Local Loop Investment
  - Cat. 1, Cat. 2, Cat. 4.11 and Cat. 4.13

- Adjust for inflation/other factors
  - Brings booked investment forward to current dollars
  - This is the total study area investment (Tot INV)

- Could use other methods to derive/refine loop investment estimation

Step 2: Determine Future Allowable Investment (FAI)

- Calculate the ratio of local loop accumulated depreciation to booked local loop investment
  - Multiply ratio by Total INV = Future Allowable Investment
- Effectively allows only replacement of depreciated plant
  - Depreciated plant has reached end of life
  - Need for “safety valve” and greenfields/exemptions
- Example:
  - $55.2M / $87.6M = 63% of Total INV is “Future Allowable Investment” (FAI)

Step 3: Spread FAI over Investment Period

- FAI would be spread over Investment period
  - Minimizes/paces the demand on USF
  - Loop plant investment amount eligible for USF support in any given year would be the lesser of:
    - 20% of Total INV
    - FAI
  - Investments in excess of those eligible for USF in any given year may be rolled over to next year for USF support
    - Calculations repeated each year to determine loop plant investment amount eligible for USF in that year

Other Considerations

- Small Company Investments
  - Inefficient to spread over 5 years
  - If a LEC's Total INV is less than $4M, the full amount should be allowed and supported in a given year
- Normal maintenance and routine upgrades
  - 5% of Total INV should be allowed regardless of FAI

Other Considerations (cont'd)

- Greenfield Builds
  - Greenfield builds should be allowed in addition to any FAI or maintenance and routine upgrades – no plant to depreciate associated with such areas
- "Safety Valve" Waiver Process
  - Streamlined process needed to accommodate:
    - Unforeseen technology/equipment/materials costs
    - Other special circumstances associated with deployments in remote, hard-to-serve areas

Company 1 (Example 1)

- Estimate Total Investment
  - Total Loop Plant = $87.6M
  - Total Loop Depreciation = $55.2M
  - Apply Inflation Factor to the $87.6M
  - Total INV = $100M (estimated)
- Future Allowable Investment
  - $100M*0.63 = $63M (0.63 = $55.2M/$87.6M)
  - $63M = amount eligible for USF support
- Spread Future Allowable Inv over Inv Period
  - Maximum of $20M can be invested in current year
    (20% of $100M / total investment over 5 years)

Company 2 (Example 2)

- Estimate Total Investment
  - Total Loop Plant = $9M
  - Total Loop Depreciation = $3M
  - Apply Inflation Factor to the $9M
  - Total Investment = $12M (estimated)
- Future Allowable Investment
  - $12M*0.33 = $3.96M (0.33 = $3M/$9M)
  - $3.96M = amount eligible for USF support

Company 2 (Example 2 cont'd)

- Spread Future Allowable Inv over Inv Period
  - $2.4M can be invested in current year
    (20% of $12M / total investment over 5 years)
  - Company could choose to invest $3M this year though and be eligible for USF support
    - Use 5% of the Total Investment Amount
      - $12M x 5% = $600,000
      - $2.4M + $600,000 = $3M

Thank you.